MONETARY POLICY STATEMENT

PRESS CONFERENCE

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Good afternoon, the Vice-President and I welcome you to our press conference.

The euro area economy continues to recover strongly, although momentum has moderated to some extent. Consumers continue to be confident and their spending remains strong. But shortages of materials, equipment and labour are holding back production in some sectors. Inflation is rising, primarily because of the surge in energy prices but also as the recovery in demand is outpacing constrained supply. We foresee inflation rising further in the near term, but then declining in the course of next year.

Market interest rates have increased since our last meeting in early September. However, overall financing conditions currently remain favourable for firms, households and the public sector. Favourable financing conditions are essential for the economy to continue its recovery and to counter the negative impact of the pandemic on the inflation path.

We continue to judge that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the pandemic emergency purchase programme (PEPP) than in the second and third quarters of this year.

We also confirmed our other measures, namely the level of the key ECB interest rates, our forward guidance on their likely future evolution, our purchases under the asset purchase programme (APP), our reinvestment policies and our longer-term refinancing operations, as detailed in the press release published at 13:45 today. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation stabilises at our two per cent target over the medium term.

I will now outline in more detail how we see the economy and inflation developing and will then talk about our assessment of financial and monetary conditions.

Economic activity

The economy continued to grow strongly in the third quarter, even though momentum moderated to some extent. We still expect output to exceed its pre-pandemic level by the end of the year.

The grip of the pandemic on the economy has visibly weakened, with restrictions being lifted as a result of successful health measures and large numbers of people now vaccinated. This is supporting consumer spending, especially on entertainment, dining, travel and transportation. But higher energy prices may reduce purchasing power in the months to come.

The recovery in domestic and global demand is also supporting production and business investment. That said, shortages of materials, equipment and labour are holding back the manufacturing sector. Delivery times have lengthened considerably, and transport costs and energy prices have surged. These constraints are clouding the outlook for the coming quarters.

The labour market continues to improve. Unemployment has fallen and the number of people in job retention schemes is down significantly from the peak last year. This supports the prospect of higher incomes and increased spending. But, both the number of people in the labour force and the hours worked in the economy remain below their pre-pandemic levels.

To sustain the recovery, targeted and coordinated fiscal support should continue to complement monetary policy. This support will also help the economy adjust to the structural changes that are under way. An effective implementation of the Next Generation EU programme and the “Fit for 55” package will contribute to a stronger, greener and more even recovery across euro area countries.

Inflation

Inflation increased to 3.4 per cent in September. We expect it to rise further this year. But while the current phase of higher inflation will last longer than originally expected, we expect inflation to decline in the course of next year.

The upswing in inflation largely reflects a combination of three factors. First, energy prices – especially for oil, gas and electricity – have risen sharply. In September, energy inflation accounted for about half of overall inflation. Second, prices are also going up because recovering demand related to the reopening of the economy is outpacing supply. These dynamics are especially visible in the prices of consumer services, as well as the prices of goods affected most strongly by supply shortages. And finally, base effects related to the end of the VAT cut in Germany are still contributing to higher inflation.

We expect the influence of all three factors to ease in the course of 2022 or to fall out of the year-on-year inflation calculation. As the recovery continues, the gradual return of the economy to full capacity will underpin a rise in wages over time. Market and survey-based measures of longer-term inflation expectations have moved closer to two per cent. These factors will support underlying inflation and the return of inflation to our target over the medium term.

Risk assessment

The recovery continues to depend on the course of the pandemic and further progress with vaccinations. We see the risks to the economic outlook as broadly balanced. In the near term, supply bottlenecks and rising energy prices are the main risks to the pace of recovery and the outlook for inflation. If supply shortages and higher energy prices last longer, these could slow down the recovery. At the same time, if persistent bottlenecks feed through into higher than anticipated wage rises or the economy returns more quickly to full capacity, price pressures could become stronger. However, economic activity could outperform our expectations if consumers become more confident and save less than currently expected.

Financial and monetary conditions

Growth and medium-term inflation dynamics still depend on favourable financing conditions for all sectors of the economy. Market interest rates have increased. Nevertheless, financing conditions for the economy remain favourable, not least because bank lending rates for firms and households remain at historically low levels. While there was a pick-up in September, lending to firms remains moderate. This continues to reflect the fact that firms generally need less external funding, since these have high cash holdings and are increasingly retaining their earnings. Lending to households remains strong, driven by demand for mortgages. Our most recent bank lending survey shows that credit conditions for firms stabilised and were supported – for the first time since 2018 – by a reduction in banks' risk perceptions. By contrast, banks are taking a slightly more cautious approach to housing loans and have tightened their lending standards for these loans accordingly. Bank balance sheets continue to be supported by favourable funding conditions and remain solid.

Conclusion

Summing up, the euro area economy continues to recover strongly, although at a more moderate pace. Rising energy prices, the recovery in demand and supply bottlenecks are currently pushing up inflation. While inflation will take longer to decline than previously expected, we expect these factors to ease in the course of next year. We continue to foresee inflation in the medium term remaining below our two per cent target. Our policy measures, including our revised forward guidance on the key ECB interest rates, are crucial to helping the economy shift to a sustained recovery and, ultimately, to bringing inflation over the medium term to our target.

We are now ready to take your questions.

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President Lagarde, thank you very much for taking my questions. I was wondering, because the markets were – well, everybody was anticipating that this meeting was all about inflation, so what have you been discussing, and what was on top of your agenda? Was there at least a slightly different assessment to the nature of inflation, given that inflation is at a 30-year high now for the eurozone.

My second question would be on the market expectation about the rate hike. Economists were saying that the market has not fully absorbed your new forward guidance. Perhaps you can tell us more about it and why the market is wrong to expect a rate hike already by next year.

Lagarde: Thank you very much. Actually, we talked about inflation, inflation, inflation. That has been a topic that has occupied a lot of our time and a lot of our debates. We went I think in-depth into analysing the factors that are driving inflation. We looked at, obviously, what is happening now, which is clearly of concern, particularly to citizens of Europe, but we also looked at the medium-term outlook that we have. I think I would summarise those factors driving inflation, as we see it at the moment, in two key categories. One is related to pandemic and recovery, and the other one is related to energy. If you look at the one that is related to recovery and the post-pandemic period, we are seeing shortages. We're seeing shortages in equipment; we're seeing shortages in labour, and that has to do with the fact that the rebound of demand, the decompressed demand, if you will, is not exactly connected with the supply, and we have this supply-demand disconnection.

The second, as I said, is energy, and on that front we have drivers of the energy prices that have to do with the recovery, that have to do with the demand, but also other factors having to do with inventory, with the wind, with maintenance in Norway, with demand in China, with the supply by Russia. All elements that actually are contributing to the high energy prices that we are facing at the moment. Those are the three key buckets that are causing inflation as we discussed it today and yesterday afternoon. Now, there is a third category, which is very much related to the base effects, and I would put first and foremost, obviously, the German VAT, which is going to continue to impact our inflation numbers until the end of this year, but which will disappear as of 1 January. So that's one category base effect that will fade as of the beginning of the year. We also believe that the other two buckets that I have just discussed with you, that is recovery-related and pandemic consequences on the one hand, energy prices on the other hand. We have every reason to believe that they are going to gradually fade over the course of 2022. I'm happy to discuss further, but there might be other questions on these particular matters.

We did talk a lot about those, and we did a lot of soul-searching to actually test our analysis, and we are confident that this analysis of the temporality of those two categories is actually correct, and will lead to a decline over the course of '22. Now, granted, it will take a little longer than what we had expected, and the bottlenecks will gradually be sorted out, but it will take a bit longer. On the energy front, we also believe that it's in the course of '22 that we will see a decline in – at least a stabilisation, if not a decline of energy prices. So that was predominantly what we discussed with members of the Governing Council this morning and yesterday. We also, obviously, looked at the financial conditions that prevail at the moment in order to arrive at our monetary policy decisions, but inflation took a lot of our time, and it takes quite a bit of the space of the monetary policy statement that you have in front of you.

I would, by the way, add that our analysis certainly does not support that the conditions of our forward guidance are satisfied at the time of lift-off, as expected by markets, nor any time soon thereafter. So you asked me about this market expectations regarding lift-offs, and we look at all of that, but we really very deeply looked and tested our analysis of the drivers of inflation, and we are confident that our anticipation and our analysis is actually correct.

President Lagarde, you and many of your colleagues have pushed back against the idea that you need to tighten policy in response to the inflation spike that we're seeing, but many of your global counterparts have in fact started doing so. So could you explain in what ways the eurozone's underlying inflation dynamics are fundamentally different to those that we see in other advanced economies, or do you think that other central banks might be overreacting to the rise in prices?

Secondly, on the PEPP pace, you decided in September to slow your PEPP purchases to a moderate slower pace in the fourth quarter, but we haven't actually seen that in any of the weekly data so far this month. So does this have to do with countering the effects of policy-tightening expectations, or how should we read this data?

Lagarde: Well, let me start with the latter part of your question, which has to do with our PEPP purchases, and the decision that we made and that we reiterated this morning at our monetary policy meeting to slow the pace of purchase as compared with the second and third quarter of 2021. This has in fact been the case. This is what happened in September; this is what was decided for October; and this is the view that we have taken this morning, as well. So slow down in the pace of purchases, which is, as I said last time around, this is not tapering; this is calibrating appropriately on the basis of the commitment that we made back in December last year to look at a combination of the financing conditions to determine that they are favourable, and look at what the inflation outlook is. We came to the conclusion, yet again, this morning, that on the basis of both financing conditions that are favourable, particularly at the level of corporates and households, where interest rates are at an historically low level, and there seems to be plenty of supply of lending available. When we looked at the inflation outlook we concluded that the same assessment was appropriate this time around.

Now, you asked me to compare with other central banks. First of all, I think that comparisons, for good reasons, are odious, simply because we are not talking about the same economies. The outlook is different, the level of inflation that they have is different. Some of them are either at or above target already, including in the inflation outlook, and that fully justifies that they adopt different approaches. Some of those central banks are in commodity producers and exporters economies, and that also justified particularly approaches. So clearly, the euro area is a very large market economy. It is not a small open-market economy. It has to decide on the basis of data what the monetary policy should be in order to deliver on our mandate, which is price stability. I can assure you that we are fully committed to our 2% inflation in the medium term. That is our target. We have affirmed it in July. We are absolutely determined to deliver on that target, but we have to do that on the basis of data. We have to be patient; we have to be persistent as to our policy going forward, and that is particularly so at the effective lower bound where we are, as we have indicated in our strategy review recently.

Good afternoon, Mrs President. Thank you very much for taking my questions. The first one, actually, is not mine, but one we receive from a lot of viewers, listeners and readers at the moment. If I may, I would like to summarise it like this: they would like to know what are the preconditions to be necessary for the ECB to return to a kind of normality, and meaning by this that interest rates are going up again, and that the bond purchases would be reduced or even stopped.

My second question relates to some research, the Centre for Economic Research in Mannheim, Germany, has done recently. They looked at a correlation by analysing statements and speeches of ECB Governing Council members, and they found some correlation there. On the one hand, between fiscal interests by member states and monetary policy, rather than price stability and monetary policy, which one perhaps might expect. Basically, it's suggesting that there is a certain kind of focus on fiscal policy by some Governing Council members, and that may – that is the suggestion – influence the decision-making process. How do you feel about these findings?

Lagarde: Thank you so much. Let me clarify, first of all, that the European Central Bank is independent, and is bound by the Treaty of Europe, to put it simply, which gives us one mission, and that is price stability. So as I said, we are committed to deliver the price stability that forms our mission under the European Treaties. This is our commitment, and we have defined it very specifically by indicating that price stability, for our purposes, will be defined as this 2% symmetric target in the medium term. So that is what will guide us in delivering our monetary policy as the quarters and the years go by.

The second point, as you know, we are still operating on the basis of the pandemic emergency purchase programme, and that was fully justified, given the totally exceptional circumstances and very severe circumstances that affected the whole world, but particularly the euro area which we are concerned about. This pandemic emergency purchase programme, PEPP, is at this point in time, in my view, going to end at the end of March '22. So you asked me about a return to what you would regard as normal policies. I'm not sure what is normal policies. There are the traditional tools that were used in the past, and that have been used to good effect, and over the course of the development of the financial crisis in particular, of the European sovereign debt crisis, new territories had to be explored in order to deliver on the price stability mandate that was assigned to the ECB.

As a result of that, the ECB had to go into negative-rate territory, and also had to develop asset purchase programmes over the course of time. So as I mentioned, one of these programmes, PEPP, at this point in time when we speak and when we look at the situation, I have every reason to believe that it will come to its end in March '22, which was the term that was envisaged in the first place. As far as the rest is concerned, we are going to be bound by our forward guidance, which we have spelt out in three dimensions, if you will, in order to give some guidance as to when we will lift interest rates. Those three elements, I would like to just mention them yet again, have to do with inflation, as you could imagine. The first one is that inflation reaches 2%, our target, well ahead of the end of our projection horizon. We have more certainty about our forecast; we have more elements to assess that. The second condition, that this inflation remains at those levels, 2%, durably for the rest of the projection horizon, which is roughly three years; and third, that there is sufficiently advanced realised progress in underlying inflation for headline inflation to stabilise at 2% over the medium-term.

So I think the conditions for this interest lift-off which is of interest to your audience, are pretty well spelt out in this forward guidance, which clearly, under the current analysis, are not satisfied, and certainly not in the near future.

So you mentioned before, the shortages in materials and the supply chain bottlenecks that are clouding the outlook in the next months, on inflation and on the economy. How long do you think they will last? Because, also, Germany yesterday had to correct very heavily the outlook for the economy and the inflation in the next months, but there are many question marks still remaining about how long it could last. So I wanted to know how long would you think in your outlooks that it could last.

The second question, in the worst-case scenario, so if inflation wouldn't be temporary, because these effects could last, do you see any risk of stagflation?

Lagarde: On your first question, the supply bottlenecks, first of all, it will fade. I mean, the economic actors are such that they are going to reconnect supply and demand. For those microchips that we don't have at the moment, factories are being built. For those vessels that are not available, there are some producing countries that are working on new vessels. For this shipping to be better organised and hauling to be better sorted out in ports, this is going to gradually be settled and sorted out. So it will fade away. Second, it will most likely take a little longer than what we had anticipated, and what most forecasters had anticipated. We just recently conducted a corporate telephone survey. So we make phone calls to various large accounts, medium-sized accounts, to ask them, 'What do you see? When you will you get your supplies? How long do you have to wait until there is delivery?' This is telling us that it will be settled and it will be sorted out in the course of '22, but not in the first quarter of '22, and some of them have been saying it will take the whole year. To properly settle it will be gradual, certain deliveries will come about earlier, but overall it will take a good chunk of '22 for it to be sorted out.

The third point that I would like to make in relation to the supply bottlenecks is a little bit of what you've seen, actually, with the readjustment of the growth projection for Germany. Reduced, in the first place, compared with projection, but increased the following year. You see very well that this is most likely going to happen in the supply bottlenecked business, where reduced supply is going to be channelled back to markets at some stage, and then there will be a reconnection between supply and demand. So we're really talking about the passing of time and how long that will be. Difficult to say, but certainly longer than what we had expected, and if we are to believe the corporate accounts and those that are in charge of logistics of supply of purchases, they're saying that in the course of '22 it will be resolved. So that's what I wanted to tell you about the supply shortages. I think you had another question.

Stagflation.

Lagarde: Oh, yes, stagflation. We are not seeing stagnation, to begin with, okay? So for there to be stagflation you would have to have stagnation. We still have a strong recovery. The momentum is abating a little bit because of the shocks that we have just discussed, because of the supply bottlenecks, because of the price of energies going up, but we are not seeing any kind of stagnation on our horizon. As far as inflation is concerned, I think we have just discussed it; we see it rising, and it will continue to rise, by the way, until the end of this year, we believe, and it will begin declining as of the beginning of '22, simply because of the German VAT getting out of the statistics. Then, gradually, over the course of '22, as the bottlenecks are resolved and as energy prices will be reduced as well. If not reduced, at least stabilised, because that's what we have seen over the course of all the historical abrupt energy price rise. It doesn't rise forever; it stabilises, and eventually it settles a little lower.

The first question is about PEPP. You told us that you expect to end it in March. Do you also see a chance that you may not use the envelope in full? I mean, how do you rate the probability of that?

The second question is about your ethics review. The Fed has tightened the rules governing how its policymakers invest their own money. I know you are doing your own review right now. So how do you plan to change those rules also in the light of the Fed's decision.

Lagarde: Thank you very much. As I said, at this point in time I expect PEPP to end at the end of March. Whether we will use the full envelope, or not, is to be seen, and will be a factor of the favourable financing conditions, as we will determine over the course of the next few months until the end of March. So I cannot tell you anything one way or the other in that respect, and it will be a decision that will be made by the Governing Council at large. We have not discussed that at all, neither this morning nor yesterday.

On the ethics rules, as you know, we have a code of conduct. We have ethics principles, we have an ethics officer, and we publish the holdings that board members have, that Governing Council members have, and so on and so forth. There have been quite a few pieces already committed as to who manages what, who owns what. Our ethics committee and the ethics officer are currently reviewing, revisiting those rules to make sure that everything is plain, transparent, without any conflict, and that those rules be adhered to and respected by all members concerned.

Two very quick question for you. Are markets getting ahead of themselves in expecting a rate rise as early as the end of next year, and how important is it for you to maintain some of the flexibility of PEPP after PEPP ends in March next year?

Lagarde: Are markets ahead of themselves? Not for me to say. What I have to do, and what I have to assess is the validity of our analysis, and then testing our analysis once we've determined that it was correct, against the conditions for our forward guidance. What I can tell you, is that our analysis does not support that the conditions of our forward guidance are satisfied, neither at the time expected by markets of lift-off or any time thereafter soon. So I think that I'm very happy to go into further explanation as to why we believe that inflation will continue to rise until the end of this year, will decline over the course of 2022, and at the end of our projection horizon will be below our target. That's the analysis that we make, and I think that, given the temporality of the various factors that I have opened the discussion with, whether it's bottlenecks, whether it's energy, whether it is those base effects, I think that all those elements will actually fade out. They will fade out over a little longer, but they will fade out.

I think what I can also tell you is that we will be very attentive to wage evolution. That will, of course, be critically important for the purpose of our underlying inflation analysis, but certainly on the basis of the data that we have today, we have no reason to believe that wages are going to sustainably increase, and will produce the second-round effect, which would lead us to probably reassess our analysis.

On the issue of flexibility, I think we have demonstrated, when forming PEPP, under the conditions that we know, that we can actually have the flexibility necessary in order to deliver on our mission of providing the monetary policy stance and transmission to deliver on our price stability mission. We need to make sure that that remains the case. We've demonstrated it, and I'm sure that we can do so in the future.

I have only one question left. So while we will have, we have today the ECB adopting the status quo, yes, and the tightening of monetary policy is expected in the United States and in the UK in the next weeks or months, and that will weigh on the euro. So a possible cheaper euro means imported inflation. Was this aspect highlighted during today's discussion among members?

Maybe let me to finish express a wish, at the next and last press conference of the year could be held in presence, as a sign that the ECB has a growing belief that the pandemic is near to be over.

Lagarde: Thank you so much. What I hope that is that maybe the first into 2022 will be with physical presence, because we, out of precaution, we have actually asked members of staff to respect the status quo until the end of January, just to be on the safe side, and to make sure that we don't expose staff to pandemic issues, risk of contagion, and we're taking every possible measure to prevent a recurrence of what we saw in the past. Certainly, if we are successful with that – not just the ECB, but many of us around here – then my hope is also that we can all see each other for real. I mean, I'm looking at empty chairs. I hope to be looking at bodies and faces and smiles, and your question in real life.

On the issue of the spillover of any tightening measures that would be taken by either the Bank of England or the Fed, this is not a matter that we have discussed today at all.

My first question is about asset purchases. In your opinion, is their duration or their volume more important in achieving the 2% target? Some Governing Council members seem to have expressed divergent views on this point.

Secondly, on a different topic, what do you think about the European Commission's proposal on Basel III requirements for banks, postponing the start to 2025? The ECB had called for full and timely implementation of Basel III, but do you think it is useful to consider some European specificities, for example, on lending to non-financial corporations?

Lagarde: Turning to your first question of what matters most in respect of asset purchases, we did not debate that at all this morning or yesterday, but this matter was raised in the past, and I think that you rightly characterised the diversity of views. I think the dominant view is probably that volumes matter more than duration, but I think the jury is out as to exactly what is the ultimate right outcome to that question.

On your other point concerning the European Commission communication about Basel III, and other matters, we just received it. You are quite correct in that the timeline of implementation is not the one that was advocated, including by my colleague Andrea Enria of the SSM, and from my perspective, I would have liked, for having been an old soldier of Basel III discussions for the last ten years, actually, I would have liked consistency and synchronicity between all regions and all banks concerned by Basel III. I don't want to pass judgement on that, because I think it's a combination of an extension of the implementation time, but also qualification of certain matters on the output floor on various characteristics of the Basel III principles. So let's not rush to conclusions, and let's make sure that the very specificity of European banking activity can be accommodated in an as synchronised and consistent system it can be.

The first question is the resignation of Mr Weidmann. Is it a healthy development when the representatives of the largest member state regularly stepped down frustrated by the Governing Council, probably, and the unconditionally expansionary monetary policy, and how can you solve the problem?

The second, very general question. Is it really fair that countries like France or Germany have just as much, only one vote, in the Council as Malta or Luxembourg? There are probably other systems, such as linking the weight of the votes to the gross-domestic product, or, for example, for the size of the population.

Lagarde: Let me state very clearly that we have had an excellent working relationship with Governor Weidmann, and that I, personally, have had the pleasure of long years of standing services in various capacity. When he was adviser and Sherpa to Chancellor Merkel, and when I was Finance Minister; subsequently, when he became President of the Bundesbank, and I was head of the IMF. So we go back a long time, and we have a very good working relationship. As I have publicly said, I regret that he goes, and I have enjoyed the relationship, including in the Governing Council. There is nothing in what he has told me, and nothing in what he has told colleagues on the Governing Council that would hint in the direction of what you have alluded to as the cause for his stepping down. I think he has referred to, 'Ten years is a long time, and there is a point in time when turning a page is not a bad idea.' I think he has his own personal reasons, as he has also indicated, but I certainly would not regard them as fatigue with the way in which the Governing Council has deliberated under my leadership. As I said, constant stepping down is a bit of an overstretch for somebody who has served for ten years in his position.

Now, weighted voting: interesting topic. It's just not in the cards, and not in the way in which Europe was constructed over the course of time, and it is certainly not for the European Central Bank to change that and to take a view on that particular matter. What I can assure you, though, of, is that each country, member state of the euro area, has a voice, is listened to, is respected, and certainly some members, which are larger than others, play a more critical role and are more active, including in the implementation of monetary policy, as well as its determination.

President Lagarde, I have two questions. One, if I may, go back to forward guidance, not on the three legs and the conditions, but on the fact that the Governing Council still expects the key interest rates to remain at present or even lower levels. Can you explain why on the forward guidance we still have reference to lower levels, and can we expect that to be going by steps to be taken away?

My second question is on TLTROs, because in December the third series of the targeted longer-term refinancing operations will end, I think before the next Governing Council. So will there be a cliff edge, or will there be a transition towards a different TLTRO?

Lagarde: Well, thank you so much for your very pointed question in relation to forward guidance. So I take it that I don't have to repeat my three criteria: well ahead, until the end of our projection period, as well as with real progress on the underlying inflation. They are as they are, and you understand them very well. Now, clearly, we have to continue being open to any eventuality, and I would say that it applies to present, higher or lower, depending on the circumstances, and this is a matter that is, obviously, for debate by the Governing Council and that will be certainly reviewed over the course of time.

On TLTRO, you are right, and I think that we should do everything possible in order to avoid a cliff edge effect, and this is a matter that we will be discussing at our next monetary policy meeting, which as you know, is planned for December, and at which we will have new projections, which will help us reassess and test our analysis. We will also be looking at what happens in March, and TLTRO and the way in which TLTRO phases out will be one of the topics that will be discussed at that time.

As a couple of people have previously alluded to, markets are pricing in 20 basis points of rate hikes through to the end of 2022. I wonder whether you're actually trying to signal the ECB's intentions to the wider economy, rather than the financial markets. I wonder, if that's the case, and secondly, if that's not the case, why does the ECB spend so much time trying to sell this message to financial institutions that appear not to be listening?

Lagarde: Can you repeat the first part of your question? Because I don't think that I understood the second branch of your reasoning. Do you mind?

I wondered whether, given that markets' estimations of where we're going to be in two years' time differs so much from the ECB's. Are you actually trying to signal your intentions to the wider economy, rather than the financial markets? That was the first question. If that's not the case, my second question, why spend so much time trying to sell your message to institutions that aren't listening?

Lagarde: I think the art of repetition and the determination of our conviction should, eventually, come through, because you are quite right that there is a distinction between their expectations and our analysis in relation to our forward guidance, which will determine when we move on interests, and there is a disconnect between the two. So we have to ask ourselves where this disconnect lies in, and it's either a question of our forward guidance not being sufficiently clear so that it is understood, or it is a question or our inflation outlook not being believed by markets, which is why, you will not be surprised, we spent a lot of time on dissecting our inflation analysis, going under the skin of all the factors that are behind inflation outlook for this year, for next year, for '23, and trying to project ourself into the medium-term a bit further. We are convinced that our assessment and our projections at this point in time are correct, as we are convinced and determined to actually deliver on our mission in accordance with our forward guidance; nothing more, nothing less. By the way, if I need to spend more time doing it, I will do so, but it's not going to change.

My first question is in relation to PEPP purchases. You have stressed that these will expire in March 2022. Therefore, should markets expect a sharp reduction in ECB support and purchases, or instead they should expect a smooth transition with higher APP purchases?

My second question is in relation to inflation. What makes the ECB so certain that inflation will fall over the course of 2022? Is it mainly, as you explained before, related to the resolution of bottlenecks in supply chains, or is it in relation to the differences between the fiscal estimators, for example, between the euro zone and the US, for instance?

Lagarde: Thank you so much. As I said, at this point in time, I expect PEPP to conclude and come to an end in March 2022. What comes next is something that we will be debating at our next Governing Council meeting in December. So more to come in that respect at the end of our meetings in December. On the inflation, what makes us confident that inflation will decline in '22, is what I have tried to explain. So what is behind inflation at the moment? We had those base effects, including in particular German VAT, which will go out as of January so that's off-the-chart and it's about 50 basis points[1]. Second bucket is everything that is related to the recovery, and as result of pandemic, and this is, essentially, that disconnect between supply and demand, which is causing those multiple shortages in equipment, in labour, in all sorts of services as well, and which is leading to upside prices in goods, manufacturing goods, but also in consumer services. We believe, as has often been demonstrated in previous cases – let's remember the Japanese major accidents that led to disruption in the automotive supply chain, which was restored in a matter of six months.

We've seen other incidents of similar occurrences. Supply, eventually adjusts in the course of time, and we will see that. How long will it take, is where I have said it will take longer, and the corporates that we have surveyed in the last few weeks have also said that. It will go away, but it will take some time, and more than what we had thought, but in the course of '22 most of them see that, essentially, being settled. The third bucket is the energy prices, where, again, if we learn from previous similar, very sharp rise in the price of energy, it will be followed by a period of stabilisation and possibly some decline, as has been the case in the past. So for all these reasons we believe that our analysis is correct. Now, clearly, as well, the longer these bottlenecks, energy prices impact on prices, the more attentive we have to be to the wage impact, and to the bargaining arrangements and discussions that will be taking place, and we need to see whether there is a possibility of second-round effect, but let me remind you that we are currently in a situation where we have slack. Where you have nearly two million people less employed in the economy today compared with pre-pandemic, where we have three million people who are still on furlough schemes. So there is slack in that respect, and what we are looking at, as well, is the inflation expectations, which we see in a median analysis as being pretty well anchored. A little bit up, but still very much anchored.

1. Actual estimate is about 35 basis points

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